

increasing the number of trade fails and the potential financial exposure to members.

The NASD is concerned that the problems associated with broker-to-broker clearance of corporate bond trades is creating avoidable risks and inefficiencies, as described above, in the clearance and settlement system. The NASD also is concerned that the implementation of T+3 settlement of securities transactions scheduled to occur on June 7, 1995, will exacerbate the risks and inefficiencies inherent in clearing corporate bond transactions broker-to-broker. Accordingly, in order to reduce or eliminate these risks and inefficiencies, the NASD is proposing to amend the UPC to adopt a new section 72 to require a member of its agent that participates in a registered clearing agency to use the facilities of a clearing agency to clear eligible transactions in corporate debt securities.<sup>2</sup>

Finally, the proposed rule change provides that the NASD may exempt any transaction or class of transactions in corporate debt securities from the provisions of the rule as may be necessary to accommodate special circumstances related to the clearance of such transactions or class of transactions. The NASD anticipates that this provision will be used only in the event special pricing and processing problems related to particular corporate debt securities make using the facilities of a registered clearing agency difficult or impossible and outweighed the benefits of using the facilities of a registered clearing agency.<sup>3</sup>

Because the proposed rule change may facilitate the implementation of the industry's transaction to a T+3 settlement scheduled to occur on June 7, 1995, the NASD will make the proposed rule change effective as soon after the

Commission approval as it is possible to publish a Notice to Members announcing approval. The proposed rule change will be effective two weeks following publication of the Notice to Members announcing Commission approval.

The NASD believes that the proposed rule change is consistent with the provisions of section 15A(b)(6) of the Act<sup>4</sup> in that requiring such transactions to be cleared through the facilities of a registered clearing agency will reduce the number of trade fails and reduce or eliminate risks and inefficiencies caused by broker-to-broker clearance of such transactions, thereby enhancing the functioning of the clearance and settlement system for the benefit of all securities market participants.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

The NASD does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

Written comments were neither solicited nor received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within thirty-five days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the NASD consents, the Commission will:

(A) By order approve such proposed rule change or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the

Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD.

All submissions should refer to the file No. SR-NASD-95-11 and should be submitted by May 22, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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[Release No. 34-35646; File No. SR-PSE-95-02]

**Self-Regulatory Organizations; Pacific Stock Exchange Inc.; Order Granting Approval to Proposed Rule Change Relating to Obligations for Regulatory Cooperation**

April 25, 1995.

On February 8, 1995, the Pacific Stock Exchange Incorporated ("PSE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend its rules to require regulatory cooperation by members, member organizations, and others over whom the Exchange has jurisdiction with certain investigations and proceedings that are initiated by another self-regulatory organization ("SRO") pursuant to a regulatory agreement. On March 3, 1995, the Exchange submitted to the Commission Amendment No. 1 to the proposed rule change.<sup>3</sup>

The proposed rule change, including Amendment No. 1, was published for comment in Securities Exchange Act Release No. 35497 (Mar. 15, 1995), 60 FR 14991 (Mar. 21, 1995). No comments were received on the proposal.

The Exchange is proposing to amend Rule 10.2, relating to Exchange

<sup>2</sup> The NASD also has been advised that enhancements to the National Securities Clearing Corporation's Fixed Income Transaction System to facilitate the corporate bond comparison process became effective October 21, 1994. This facility enhancement accelerates the comparison cycle to trade date which allows members to view their compared corporate bond trades on T+1. This acceleration of the comparison cycle will aid the industry's transition to T+3 settlement.

<sup>3</sup> For example, the NASD considered mandating the use of the facilities of a registered clearing agency for other types of securities such as unit investment trusts, private label collateralized mortgage obligations, synthetic stripped coupons, and government securities but concluded that it would be inadvisable to adopt such a mandate until the special pricing and processing requirements for these securities is fully understood and resolved. Similarly, if the NASD is asked to exempt certain issues or transactions in certain issues of corporate debt because of problems associated with clearing transactions in such issues through the facilities of a registered clearing agency, the exemptive power provided in the proposed rule change will permit the NASD to resolve such problems.

<sup>4</sup> 15 U.S.C. 78o-3(b)(6).

<sup>5</sup> 17 CFR 200.30-(a)(12) (1994).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1994).

<sup>3</sup> See letter from Michael D. Pierson, Senior Attorney, PSE, to Jennifer S. Choi, Attorney, Division of Market Regulation, SEC, dated March 2, 1995. Amendment No. 1 added .02 of the Commentary to the proposed rule change.

investigations to add new subsection (d) and .01 and .02 of the Commentary to require members, member organizations, persons associated with a member or member organization, and other persons or entities over whom the Exchange has jurisdiction pursuant to Rule 10.1(b) to testify before another SRO and to furnish information in connection with a regulatory inquiry, investigation, examination, or disciplinary proceeding resulting from an agreement entered into by the Exchange pursuant to Rule 14.1.<sup>4</sup> The proposed rule change would further require these persons and entities not to impede such a proceeding. Moreover, the proposal provides that the rule would apply regardless of whether the Exchange initiated an investigation pursuant to Rule 10.2(a) or a disciplinary proceeding pursuant to Rule 10.3.

Under the proposed rule change, the Exchange also makes explicit that persons or entities, required to furnish information or testimony pursuant to a regulatory agreement, will be afforded the same rights and procedural protections that such persons or entities would have if the Exchange had initiated the request for information or testimony.

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of section 6(b).<sup>5</sup> The Commission believes the proposal is consistent with the section 6(b)(5) requirements that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public interest.

This proposal, which is similar to a proposal by the Chicago Board Options Exchange, Inc. that was recently approved by the Commission,<sup>6</sup> grew out of a meeting of the Intermarket Surveillance Group ("ISG") to coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets.<sup>7</sup> The Commission believes that

the proposed rule change achieves a reasonable balance between the need for regulatory cooperation and protection of the procedural rights of Exchange members and others from whom information or testimony is requested. The rule would provide the Exchange with the authority to seek cooperation by certain persons with respect to inquiries and investigations resulting from regulatory agreements between the Exchange and another SRO while explicitly providing any person or entity required to furnish information or testimony pursuant to the rule with the same procedural rights that they would have if the request was pursuant to an Exchange initiated inquiry or investigation. In furtherance of the policy to protect procedural rights, the Exchange provides in Commentary .02 to Rule 10.2 that the Exchange will always act as an intermediary between another SRO and the exchange member, member organization, or other designated person from whom information or testimony is being sought for any inquiry made pursuant to an agreement under Rule 14.1.

The Commission believes that it the proposed rule change will further the interest of the public and provide for the protection of investors by allowing the Exchange to assist other SROs conduct prompt inquiries into possible trading violations and other possible misconduct. As the marketplaces become more global and interlinked, the Commission believes that is important that the SROs coordinate their investigatory activities to prevent fraudulent and manipulative acts and practices in all marketplaces.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,<sup>8</sup> that the proposed rule change (SR-PSE-95-02) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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Chicago Board Options Exchange, Inc., the Chicago Stock Exchange, Incorporated, the Cincinnati Stock Exchange, Inc., the National Association of Securities Dealers, Inc., the New York Stock Exchange, Inc., the Pacific Stock Exchange Incorporated, and the Philadelphia Stock Exchange, Inc.

<sup>8</sup> 15 U.S.C. 78s(b)(2) (1988).

<sup>9</sup> 17 CFR 200.30-3(a)(12) (1994).

[Release No. 34-35641; File No. SR-PTC-95-03]

**Self-Regulatory Organizations; Participants Trust Co.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Extending Temporary Approval of Current Margin and Pricing Methodology for Collateralized Mortgage Obligations**

April 24, 1995.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on March 28, 1995, the Participants Trust Company ("PTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-PTC-95-03) as described in Items I and II below, which Items have been prepared primarily by PTC. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposed rule change through April 30, 1996.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule change extends through April 30, 1996, the temporary approval of the current margin and pricing methodology utilized by PTC for collateralized mortgage obligations ("CMO") that are eligible for deposit or that may become eligible for deposit at PTC.<sup>2</sup>

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, PTC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. Summaries of the most significant aspects of such statements are set forth in sections A, B, and C below.

**A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change**

**Margin Under PTC's Rules**

Under PTC's rules, a certain percentage ("applicable percentage") of

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> Securities Exchange Act Release No. 34017 (May 5, 1994), 59 FR 24495 (File No. SR-PTC-92-16) (order approving through April 30, 1995, PTC's CMO margin and pricing methodology).

<sup>4</sup> Rule 14.1 provides that the Exchange may enter into agreements with domestic and foreign self-regulatory organizations providing for the exchange of information and other forms of mutual assistance for market surveillance, investigative, enforcement, and other regulatory purposes.

<sup>5</sup> 15 U.S.C. 78f(b) (1988 & Supp. v. 1993).

<sup>6</sup> See Securities Exchange Act Release No. 35403 (Feb. 22, 1995), 60 FR 10884 (Feb. 28, 1995) (approving File No. SR-CBOE-94-39).

<sup>7</sup> The members of ISG are the American Stock Exchange, Inc., the Boston Stock Exchange, Inc., the